

STATE FINANCE COMMITTEE
OLYMPIA, WASHINGTON

December 17, 1999

The State Finance committee met in special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Jeffrey Cherry, Office of Financial Management
Allan J. Martin, Office of the State Treasurer
Vicki Cox, Office of the State Treasurer
Shad Pruitt, Office of the State Treasurer
Martin Reynoso, Office of the State Treasurer
Sue Melvin, Office of the State Treasurer
Gretchen Gale, Office of the State Treasurer
Mike Clarey, Office of the State Treasurer
Elise Greef, Department of Transportation
Helga Morgenstern, Department of Transportation
Bart Potter, Office of the State Treasurer
Bill Tonkin, Foster Pepper & Shefelman
Svein Braseth, Office of the State Treasurer
Dean Torkelson, Seattle Northwest Securities
Nancy Adams, Office of the State Treasurer
Jeanne Cushman, Office of the Attorney General
Dan Gottlieb, Gottlieb, Fisher & Andrews
Darlene Cimino DeRose, Montague DeRose & Associates
Mike Roberts, Office of Financial Management
Jon Gores, Seattle Northwest Securities
Sue Martin, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lieutenant Governor Owen moved the minutes for the September 29, 1999, meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin introduced proposed Resolution No. 905 authorizing the issuance and sale of \$253,000,000 State of Washington Various Purpose General Obligation

Bonds, Series 2000B. Mr. Martin explained the proceeds will be used to finance projects authorized by the 1999-01 capital budget which are currently underway or to reimburse construction accounts for work already completed. As customary, proposed Resolution No. 905 provides for a ten-year optional call. This call protection continues to afford the state the ability to respond to falling interest rates. At the same time, the market does not extract a penalty for retaining the call. The proposed resolution also provides for making the bonds non-callable based on an economic finding by the Deputy Treasurer and Chairman of the State Finance Committee prior to sale. In the current market, it is not expected that this provision will be exercised. Mr. Martin stated that we are in a rising interest rate environment.

Mr. Torkelson stated that interest rates were up 1% since roughly a year ago with municipal bond rates from about 5% to about 6%. Mr. Torkelson continued by stating it would appear with the tight labor markets, relatively weak dollar, that bias is on the side of frugal tightening. Mr. Torkelson indicated that interest rates generally are still relatively low if you look back over the last 25 years. In fact, they're probably within a percent or percent and a half of their all-time lows. Nevertheless, they are on the rise and they are moving in the wrong direction, at least for the Bond Debt section, as opposed to the Investment section, where they're smiling. So we estimate a rate in the neighborhood of 5 ¾% to 6% by the time we get to February.

Mr. Martin presented proposed Resolution No. 905 to the committee.

Resolution No. 905 authorizing the issuance and sale of \$253,000,000 State of Washington Various Purpose General Obligation Bonds, Series 2000B, authorized by Chapter 14, Laws of 1989, 1st Ex. Sess., as amended, Chapter 456, Laws of 1997, Chapter 380, Laws of 1999, and Chapter 39.42 RCW.

Lieutenant Governor Owen moved to adopt Resolution No. 905. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin introduced proposed Resolution No. 906 which makes \$27,000,000 available for Jumbo Ferry construction. The bond proceeds will be used wholly to reimburse expenditures made prior to the date the bonds are issued in accordance with the "Official Notice of Intent to Sell Reimbursement Bonds" included in the Transportation Commission Resolution No. 595 adopted on August 19, 1999. The Washington State Ferries, a modal division of Washington State Department of Transportation (WSDOT), contracted with Todd Pacific Shipyards to build up to three Jumbo Mark II vessels in Seattle. This bond sale represents the final \$27,000,000 of an original \$210,000,000 authorization. Mr. Martin explained that marine vessel construction expenditure's authorization by the WSDOT were incurred between July and December 1999. Chairman Murphy acknowledged Ms. Morgenstern and Ms. Greef were available to answer any questions.

Mr. Martin presented proposed Resolution No. 906 to the committee.

Resolution No. 906 authorizing the issuance and sale of up to \$27,000,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2000C, authorized by Chapter 158, Laws of 1992, and 39.42 RCW.

Lieutenant Governor Owen moved to adopt Resolution No. 906. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin introduced proposed Resolution No. 907 which revises the findings related to the sources of funding for the open air stadium component of the public stadium and exhibition center project.

Mr. Martin explained that IRS regulations permit an issuer of tax-exempt bonds to allocate the sources of funds intended for the repayment of the bonds received in respect to privately used bond-financed facilities, pro rata, based on the sources of funding for expenditures on those facilities. To take advantage of this opportunity, the issuer must make findings regarding the sources of funding. For this purpose, in Resolution No. 881, adopted on December 18, 1998, the committee found, based upon information in the Facility Funding Model prepared by Jensen Consulting Services and provided by the Public Stadium Authority and First & Goal, Inc. ("FGI") that the total estimated cost would be \$430,000,000, of which the 'total public share,' as defined in Section 218 of the Bond Act, would be \$300,000,000. The remaining \$130,000,000 and any cost overruns are to be paid for by FGI. The committee further found that the Stadium and Exhibition Center would consist of the following three distinct facilities, which the committee expected to be financed from the following sources:

Facility	Sources of Funding (Amount or Percentage of Costs)	
	<u>Equity</u>	<u>Bond Proceeds</u>
1. Open Air Stadium	\$130,000,000	\$184,500,000
2. Exhibition Center	--	100%
3. Parking Facilities	--	100%

Mr. Martin referred to the updated funding costs as follows:

Facility	Sources of Funding (Amount or Percentage of Costs)	
	<u>Equity</u>	<u>Bond Proceeds</u>
1. Open Air Stadium	\$135,200,000	\$219,800,000
2. Exhibition Center	--	100%
3. Parking Facilities	--	100%

Mr. Gottlieb stated Resolution No. 907 is a housekeeping resolution with an important purpose. The purpose is to help allocate private payments and non-private payments, in so far as they relate to the money that's coming in that allows the committee, ultimately, to finance what is going to be financed in tax exempt bonds. The tax code, in short, requires the committee to make a designation of finding with respect to how it intends to finance it and then the committee can allocate those payments on a pro rata basis. These numbers which the findings were based on have changed since a year and a day ago when the committee made the first findings in Resolution 881. These changes are fed to the committee by the team and PSA. On June 23, 1999, the committee amended such findings pursuant to Resolution No. 898 to reflect a \$5.2 million increase in the so-called equity contribution (i.e. funds from sources other than tax-exempt bond proceeds) to the amount of \$135,200,000, all of which was allocated to the open air stadium. On July 15, 1999, in connection with the effort to determine the appropriate admissions tax rate for the stadium and exhibition center, Jensen Consulting revised the Facility Funding Model to reflect an increase in the portion of the total estimated cost of the Stadium and Exhibition Center allocable to the construction of the open air stadium from \$319.7 million to \$355 million. These changes do not affect the "total public share" of \$300 million, but do affect the overall total estimated cost of the project, the allocation of sources of funding for the open air stadium and, consequently, the computation of private payments. Those effects were taken into account in ascertaining the maximum allowable Admissions Tax rate which the committee communicated to King County on that date and is the revised rate that appears in the ordinance King County adopted earlier last September.

Chairman Murphy clarified that thus far, the committee has issued approximately \$100 million in public debt and thus far, the team affiliate has contributed approximately \$50 million. Mr. Gottlieb responded that we know of at least \$50 million that has come from their contributions that went through the escrow, but they may have contributed other monies. Chairman Murphy stated that in the allocation under the code, we are making a statement in the finding that the financing for the exhibition center and the parking facility is 100% from the public debt and of the total cost of the open air stadium, the amount of bond proceeds allocated is the \$219,800,000. So it is not a matter of the committee authorizing a bond deal at this juncture, it is a matter of allocating dollars to various portions of the project so it's specific that that's what occurred. Mr. Gottlieb added that it is possible that the cost of this project may go up further, at this point those additional costs would have to be paid under the law and the contracts in place by the team. To the extent that that occurs, that increases the actual equity into the project, it may be advisable for the committee to consider another amendment to recognize that equity because every equity dollar benefits the tax exemption analysis on the bonds. Chairman Murphy stated the total amount of bond proceeds can not exceed the \$300 million figure period.

At some juncture if there is a cost over-run issue or whatever, then the equity portion would be whatever the balance is.

Mr. Martin questioned if the equity distribution could only be changed prior to a bond sale. Mr. Gottlieb said the equity contribution would need to be changed prior to actually allocating dollars to that portion of the project related to that expenditure and since presumably, the additional cost overruns are the last expenditures, the committee would probably have some time to do that. Mr. Gottlieb suggested the committee would not need to after the last bond issue, which is currently scheduled for late spring of 2001. Mr. Gottlieb stated that this resolution would supercede the previous revisions.

Mr. Martin presented proposed Resolution No. 907 to the committee.

Resolution No. 907 amending Section 2 of Resolution No. 881, as previously amended by Section 2 of Resolution No. 898, to revise the findings related to the sources of funding for the Stadium and Exhibition Center authorized by Chapter 220, Laws of 1997 and Referendum 48.

Lieutenant Governor Owen moved to adopt Resolution No. 907. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin introduced proposed Resolution No. 908 which authorizes the State Treasurer to establish an escrow account within the Stadium and Exhibition Center Account (SECA), and to negotiate and execute an Escrow deposit agreement between the State of Washington and U.S. Bank Trust National Association, as escrow trustee for such purpose.

Mr. Gottlieb explained the escrow will be created for the purpose of accepting and investing money from the Public Stadium Authority (PSA), derived in part from an Admissions Surcharge payment from First & Goal, Inc., intended to pay a portion of the sales and use taxes on the project that have been deferred (deferred sales taxes) as provided in Section 201 of Chapter 220, Laws of 1997 (the Bond Act). The escrow is not a requirement of the Bond Act or other law, but is intended to satisfy understandings set forth in the Memorandum of Understanding regarding Implementation of Various Aspects of Chapter 220, Laws of 1997 dated as of August 26, 1998, by and among the Office of Financial Management, the Office of the State Treasurer, and the PSA.

Mr. Gottlieb continued to explain that originally no payments were expected to be received from the PSA until January 2002. It appears now that payments will be made prior to the end of 1999. Payments of the deferred sales taxes begin, as derived in the updated Facility Funding Model prepared by Jensen Consulting Services at the direction of the Team Affiliate, in year 2008.

Mr. Martin presented proposed Resolution No. 908 to the committee.

Resolution No. 908 implementing an Escrow deposit agreement between the State of Washington and U.S. Bank Trust National Association, as escrow trustee pursuant to a Memorandum of Understanding regarding Implementation of Various Aspects of Chapter 220, Laws of 1997 dated as of August 26, 1998, by and among the Office of Financial Management, the Office of the State Treasurer, and the Public Stadium Authority.

Lieutenant Governor Owen moved to adopt Resolution No. 908. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin introduced Ms. Gale, Mr. Pruitt and Mr. Tonkin to the committee.

There being nothing further to come before the committee, the meeting was adjourned at 1:58 pm.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Acting Deputy State Treasurer & Secretary